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ACTION COME-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 EB-07 INR-07 LAB-04

NSAE-00 PA-01 SIL-01 USIA-06 PRS-01 SP-02 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

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R 180930Z MAR 75

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 4493

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E.O. 11652: N/A

TAGS: BEXP, TW

SUBJECT: DAVID M. KENNEDY TRADE AND INVESTMENT MISSION, MARCH 9-14

REF: TAIPEI 1290

1. BEGIN SUMMARY: KENNEDY MISSION MARCH 14 SUCCESSFULLY CONCLUDED WEEK OF COMPREHENSIVE BRIEFINGS AND FULL SCHEDULE OF OFFICIAL CALLS, VISITS TO INDUSTRIAL ENTERPRISES AND MYRIAD SOCIAL ACTIVITIES. GROC TREATED MISSION AS EVIDENCE OF ONGOING MAJOR CORPORATE AND USG INTEREST IN ROC DESPITE DOWNTURN IN WORLD AND ROC ECONOMIES AND GAVE MISSION VIP TREATMENT. MEDIA COVERAGE WAS EXTENSIVE AND FRONT-PAGE. COMMENTS FROM MISSION, WHICH INCLUDED 24 SENIOR CORPORATE LEADERS, ON VALUE OF VISIT WERE ALSO ALMOST UNIFORMLY FAVORABLE, THOUGH DOING BUSINESS IN TAIWAN NOT NEW TO SEVERAL OF THEM. END SUMMARY.

2. FOLLOWING UP ON YEAR-OLD INVITATION FROM GROC MINISTRIES OF ECONOMIC AFFAIRS AND FINANCE, CAPPED BY LETTER FROM PREMIER, FORMER SECRETARY OF TREASURY DAVID M. KENNEDY, ORGANIZED AND BROUGHT TO TAIWAN A PRESTIGIOUS GROUP OF 24 CORPORATE CHAIRMEN, PRESIDENTS AND VICE

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PRESIDENTS AND 10 OF THEIR WIVES TO ENJOY A SIX-DAY

(MARCH 9-14) REVIEW OF TRADE AND INVESTMENT PROSPECTS IN THE ROC. GROC ORGANIZED VISIT TO ALLOW THOROUGH OVERVIEW OF ECONOMY ON FIRST WORKING DAY. THIS WAS FOLLOWED, ON SECOND AND THIRD DAYS, BY BREAKOUT INTO SUB-GROUP ACTIVITIES (FIVE GROUPS - ELECTRONICS, MECHANICAL AND ELECTRICAL MACHINERY, CHEMICALS, ENGINEERING, AND BANKING/TRADE) AND INDIVIDUAL CONSULTATIONS, VISIT TO FIVE MAJOR NATIONAL ENTERPRISES IN KAOHSIUNG AREA ON FOURTH DAY, CONCLUDING WITH CALL ON PREMIER AND WRAP-UP PRESS CONFERENCE ON FINAL DAY. CALIBRE OF BRIEFINGS WAS EXCELLENT, WITH GROC'S MINISTERS OF ECONOMIC AFFAIRS AND FINANCE AND GOVERNOR OF CENTRAL BANK TAKING LEAD, COMPLEMENTED BY ARTICULATE AND KNOW-LEGEABLE ENGLISH-SPEAKING PROGRAM DIRECTORS IN ALL DEPARTMENTS CONCERNED WITH ECONOMY, FINANCE AND INVESTMENT MATTERS.

3. AT GROC INVITATION, AMBASSADOR UNGER RECEIVED MISSION IN FIRST CALL OF VISIT AND DISCUSSED POLITICAL AND INVESTMENT CLIMATE IN TAIWAN AND AREA SITUATION AS VIEWED FROM EMBASSY VANTAGEPOINT. INTEREST WAS LIVELY WITH QUESTIONS, NOT UNEXPECTEDLY, CENTERING ON US/PRC NORMALIZATION AND ANTICIPATED LOCAL IMPACT OF SAME. AMERICAN CHAMBER OF COMMERCE ALSO GAVE MISSION PROBLEM/OPPORTUNITY-ORIENTED GUIDANCE IN BREAKFAST SESSION. LATER IN SAME DAY, AMBASSADOR KENNEDY ADDRESSED AMCHAM LUNCHEON ON STATE OF WORLD ECONOMY, PREDICTING UPTURN BEFORE END OF YEAR, BUT QUALIFYING HIS PROGNOSIS ON EXPECTED ACCELERATED CONSUMER RESPONSE AND EFFECTIVENESS OF GOVERNMENT STIMULATION MEASURES.

4. GROC MINISTERS MADE STRONG CASE FOR INCREASED FOREIGN INVESTMENT, ADMITTING WEAKNESSES AS WELL AS TOUTING STRENGTHS IN ROC ECONOMY

MINISTER OF ECONOMIC AFFAIRS Y.S. SUN (SUN YUN-HSUAN) TOLD GROUP GROC POLICY OF ENCOURAGING FOREIGN INVESTMENT WAS LONG-TERM AND WOULD PREVAIL FOR AT LEAST TEN YEARS. HE SAID THAT GROC, WITH ONLY 5 PERCENT OF ITS INVESTMENT CAPITAL STEMMING FROM FOREIGN INVESTMENT, WAS NOT WORRIED ABOUT FOREIGN CONTROL OF LIMITED OFFICIAL USE

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ECONOMY, AND REAFFIRMED STRONG GOVERNMENT POSITION ABJURING DEVALUATION. ASKED WHAT MAGIC FORMULA GROC HAD APPLIED TO COUNTER WORLD PARADOX OF RECESSION WITH HIGH INFLATION (ROC STABILIZATION MEASURES HAVE KEPT INFLATION AND UNEMPLOYMENT AT RELATIVELY MODEST LEVELS), MINISTERS FINANCE AND ECONOMIC AFFAIRS SAID PRODUCTIVITY HAD NOT DECLINED, STABILIZATION MEASURES HAD WORKED, AND PREVIOUSLY LABOR-SHORT AGRICULTURAL SECTOR HAD ABSORBED

MANY OF THOSE LAID-OFF IN INDUSTRY. MINISTERS SAID THEY WOULD SCREEN VERY CAREFULLY LABOR INTENSIVE INVESTMENT APPLICATIONS BUT WOULD ACTIVELY ENCOURAGE CAPITAL INTENSIVE APPLICATIONS. QUESTIONED RE GOVERNMENT'S INVOLVEMENT THROUGH NATIONAL CORPORATIONS IN COUNTRY'S PRODUCTIVE ENTERPRISE, MINISTERS SAID AS LONG AS PRIVATE SECTOR MOVES AHEAD, GROC WILL STAY OUT EXCEPT FOR UTILITIES. THEY SAID INVESTMENT APPROVALS WOULD BE GRANTED WITHIN 45 DAYS WITH NO RESTRICTION ON LOCAL VERSUS FOREIGN SHARE IN ENTERPRISE AND WITH LIBERAL APPROACH AT TIME OF APPROVAL ON WHETHER PRODUCT SALES PERMITTED ON DOMESTIC MARKET AS OPPOSED TO EXPORT ONLY.

5. PREMIER (SEE REFTTEL) IN FINAL DAY BREAKFAST SESSION WITH KENNEDY AND LATER WITH ENTIRE GROUP, STRESSED, AS HAD BICE PRESIDENT ON THIRD DAY, SPECIAL IMPORTANCE TO ROC OF ENHANCED COMMERCIAL RELATIONS WITH US BUSINESS AND ROC'S NEED FOR SHARED TECHNOLOGY. HE PLEDGED HIS GOVERNMENT TO FULL SUPPORT OF TRADE AND BUSINESS INTERESTS OF US INVESTORS.

6. ASKED BY PREMIER IN PRIVATE SESSION FOR HIS ADVICE TO GROC, KENNEDY SAID GOVERNMENT'S STRESS ON 10 MAJOR DEVELOPMENT PROJECTS, LAYING ITS PRESTIGE ON LINE FOR THEIR SUCCESSFUL COMPLETION, COULD BACKFIRE BECAUSE OF HEAVY CREDIT DEMANDS OF PROJECTS, POTENTIAL DELAYS IN COMPLETION, AND POSSIBLE MARGINAL UTILITY OF ONE OR TWO PROJECTS, GIVEN WORLD ECONOMIC DISLOCATIONS. HE CITED EXAMPLE OF \$193 MILLION DOLLAR SHIPYARD BEING BUILT BY CHINA SHIPBUILDING CORPORATION, WHICH WILL HAVE WORLD'S SECOND LARGEST DRYDOCK (ABOUT 1 KM. LONG) FOR CONSTRUCTION OF SUPER-TANKERS. CONVEYING TO PREMIER REPORT OF PROBABLE GATX/BURMAH OIL CANCELLATION OF ORDER LIMITED OFFICIAL USE

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FOR FOUR 450,000 TON VESSELS, KENNEDY SAID GROC SHOULD DOWNPLAY PUBLICITY ON SHIPYARD, CUT ITS LOSSES, AND SCALE FACILITY TO CONSTRUCTION OF SMALLER SPECIALITY VESSELS (LPG, BULK CARGO, CONTAINER SHIPS). FORMER TREASURY SECRETARY ALSO OFFERED ADVICE -- DISCLAIMING A BANKER'S BIAS -- THAT ROC ENHANCE ITS BORROWING COMPETITIVENESS IN WORLD MONEY MARKET BY PAYING GOING INTEREST RATE RATHER THAN INSISTING ON CONCESSIONAL FINANCING OR DRIVING TOO HARD A BARGAIN. IN LATTER CASE, COUNTRY'S CREDIT WORTHINESS IS QUESTIONED, KENNEDY ADDED, AND ONE-EIGHTH OR ONE-SIXTEENTH PERCENTAGE POINT DISCOUNT IS HIGH PRICE TO PAY, PARTICULARLY IF SCARCE CREDIT GOES ELSEWHERE.

7. PREMIER, REPORTEDLY, READILY ACKNOWLEDGED ABOVE TWO

PROBLEMS, BUT, IF SO, MESSAGE WAS TOO LATE TO STOP CAM-
PAIGN TO HAIL PROGRESS ON 10 DEVELOPMENT PROJECTS. IN
MARCH 14 MAJOR NEWS CONFERENCE CHINA SHIPBUILDING CORP.
ANNOUNCED SMOOTH SAILING ON ALL FRONTS WITH CONSTRUCTION
OF FIRST SUPER-TANKER TO BEGIN CONSTRUCTION IN AUGUST
1975.

8. EMBASSY RATES MISSION IMPACT AND OVERALL USEFULNESS
AS RATHER SOLID PLUS. SEVERAL DEALS, AGENT RELATIONSHIPS
AND SALES REPORTED FIRING UP AS MISSION MEMBERS
DEPARTED. ONLY ANNOUNCED INVESTMENT CONCLUDED WAS OAK
INDUSTRIES' REPORTED AGREEMENT, EFFECTIVE APRIL 18, TO
PURCHASE MOTOROLA TAIWAN AND CONSOLIDATE
OAK'S HONG KONG AND TAIWAN INTERESTS INTO SINGLE
FACILITY IN TAIWAN.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TAIPEI01337
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750094-0150
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750338/aaaabipa.tel
Line Count: 185
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 TAIPEI 1290
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUL 2003 by CunninFX>; APPROVED <14 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DAVID M. KENNEDY TRADE AND INVESTMENT MISSION, MARCH 9-14
TAGS: BEXP, TW
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006